

Message Text

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FM AMEMBASSY AMMAN

TO SECSTATE WASHDC PRIORITY 7275

C O N F I D E N T I A L SECTION 1 OF 2 AMMAN 1426

DEPARTMENT PASS AID

E.O. 11652 GDS

TAGS: PGOV AID OVIP JO

SUBJECT: KING HUSSEINS VISIT:ECONOMIC ASSISTANCE ISSUES

REF: (A) AMMAN A-18, (B) AMMAN A-20

1. SUMMARY: IN ANTICIPATION OF THE FORTHCOMING VISIT OF KING AND PRIME MINISTER TO US WE HAVE BEEN REVIEWING CURRENT ISSUES WHICH MIGHT ARISE IN RELATION TO THE ECONOMIC ASSISTANCE PROGRAM. THERE ARE TWO--RATHER OBVIOUS-- ISSUES WHICH WARRANT MENTION BUT THEY SHOULD BE VIEWED AGAINST THE BACKGROUND OF LONGER-TERM GOJ BUDGET TRENDS. THE TWO SPECIFIC ISSUES ARE (1) OVERALL LEVELS OF

ECONOMIC ASSISTANCE IN FISCAL YEARS 1976-1977 AND FUTURE SUPPORT FOR FIVE YEAR PLAN AND (2) WHETHER THERE WILL BE FUNDS APPROPRIATED FOR THE INTERIM QUARTER. (THIS LATTER ISSUE ALSO RELATES TO MILITARY ASSISTANCE GRANT AND CREDIT FUNDS). THE MORE BASIC LONG TERM ISSUE IS WHETHER OUR ESTABLISHED POLICY OF REDUCING CASH GRANT BUDGET SUPPORT IN THE INTEREST OF INCREASING DEVELOPMENT LOANS AND GRANTS IS COMPATIBLE WITH GOJ BUDGET TRENDS WHICH IN RECENT YEARS HAVE REVEALED A GROWING RATHER THAN DECLIDING GAP BETWEEN DOMESTIC REVENUES AND TOTAL EXPENDITURES. END SUMMARY.

2. DURING PREVIOUS VISITS TO WASHINGTON THE KING AND PRIME MINISTER HAVE CONCERNED THEMSELVES PRIMARILY WITH POLITICAL AND SECURITY MATTERS AND HAVE RAISED ECONOMIC AID ISSUES ONLY
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IN VERY GENERAL TERMS. THEY HAVE TENDED PRIMARILY TO FOCUS ON

OVERALL LEVELS OF AID AND PARTICULARLY ON LEVELS OF BUDGET SUPPORT. WE EXPECT THE SAME GENERAL APPROACH WILL BE FOLLOWED DURING FORTHCOMING VISIT. HOWEVER THERE ARE TWO SPECIFIC FACTORS WHICH MAY ALTER THE CONTENT OF THEIR PRESENTATION ON THIS OCCASION. IN FIRST PLACE WITH THE RECENT PROMULGATION OF FIVE YEAR PLAN PRIME MINISTER MAY ASK FOR GENERAL COMMITMENT OF US SUPPORT FOR PLAN. THIS WILL DOUBTLESS BE COUPLED WITH REQUEST THAT WE CONTINUE SUBSTANTIAL BUDGET SUPPORT AND ALSO THAT TO THE DEGREE POSSIBLE WE ADMINISTER DEVELOPMENTAL PORTION OF OUR AID IN SUCH MANNER THAT IT ALSO CONTRIBUTES TO EASING BUDGETARY PROBLEMS. SECONDLY THEY CAN ALSO BE EXPECTED TO EXPRESS CONCERN OVER ABSENCE OF REQUEST BY ADMINISTRATION FOR INTERIM QUARTER APPROPRIATIONS FOR JORDAN.

3. WITH DEVELOPMENT CONFERENCE PLANNED FOR END OF MAY, KING AND PM WILL BE SATISFIED WITH GENERAL STATEMENT OF US SUPPORT FOR FIVE YEAR PLAN PLUS INDICATION THAT US WILL BE REPRESENTED AT SENIOR LEVEL AT CONFERENCE. WE ALSO CONSIDER OUR RECENT EFFORTS TO SUPPORT PROJECTS FROM GOJ'S OWN DEVELOPMENT BUDGET REPRESENTS BEST CONCRETE RESPONSE TO GOJ REQUEST FOR LOANS WHICH EASE BUDGET PRESSURES. WITH REF TO BROADER QUESTION OF CONTINUATION OF CASH GRANT BUDGET SUPPORT WE RECOMMEND YOU MAKE CLEAR TO KING AND PM THAT OUR BEST JUDGEMENT IS THAT UNLESS WE MAKE GRADUAL PROGRESS TOWARD REDUCTION OF BUDGET SUPPORT AND INCREASED EMPHASIS ON DEVELOPMENT AID THERE IS SERIOUS RISK THAT CONGRESS WILL AT SOME POINT TAKE MATTER OUT OF OUR HANDS AND TOTALLY ELIMINATE BUDGET SUPPORT ELEMENT OF PROGRAM.

4. THE MATTER OF INTERIM QUARTER APPROPRIATIONS IS DIFFICULT ONE. THE FY-77 CONGRESSIONAL REQUEST OF \$77.5 MILLION WITH NO PROVISION FOR INTERIM QUARTER FUNDING WILL BE SEEN BY JORDANIANS AS 25 PERCENT CUT IN US ASSISTANCE. JORDANIANS ARE QUITE KNOWLEDGEABLE REGARDING US BUDGET SUPPORT PROCESS AND WILL DOUBTLESS BE WELL INFORMED ON CONGRESSIONAL SITUATION. THE FACT THAT OTHER RECIPIENTS OF MIDDLE EAST PACKAGE AID (INCLUDING ISRAEL) ARE IN SAME BOAT AS JORDAN WILL BE OF SOME HELP, BUT WILL NOT COMPLETELY ASSUAGE KING AND PM IN LIGHT OF GREAT DISPARITY IN LEVELS OF AID BETWEEN JORDAN AND OTHERS. WE ASSUME WASHINGTON HAS DEVELOPED A RATIONALE FOR OMITTING MIDDLE EAST COUNTRIES FROM INTERIM QUARTER FUNDING. WHILE INCLUDING SOME OTHER AND WILL BE PREPARED

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TO PRESENT THEM TO JORDANIANS.

5. AS INDICATED IN PARAGRAPH ONE, THESE CURRENT ISSUES SHOULD BE VIEWED AGAINST BACKDROP OF MORE TENACIOUS PROBLEM POSED BY GOJ BUDGET TRENDS. REFERENCED AIRGRAMS DESCRIBE GOJ FY-76 BUDGET TRENDS OVER PAST FEW YEARS. IN SUMMARY SIMPLIFIED FORM THESE TRENDS ARE REVEALED IN FOLLOWING TABLE.

IN MILLIONS OF JORDANIANS DINARS

(READ IN COLUMNS)

EXPENDITURES	1972	1973	1974	1975	1975	EMB EST	1976
CURRENT	71	83	106	123	135	144	
CAPITAL	23	25	26	60	56	56	
TOTAL	94	108	132	183	191	200	
DOMESTIC REVENUES	43	46	66	84	107	95	
DEFICIT	51	62	66	99	84	105	
DOMESTIC BORROWING	7	11	9	13	--	15	
FINANCIAL ASSISTANCE	44	47	53	71	72	72	

NOTE ACCORDING TO OFFICIAL FIGURES THE RECORDED DEFICIT IS NOT COMPLETELY FINANCED IN MOST YEARS SHOWN ON THE TABLE. WE BELIEVE THE UNCOVERED GAP IS PROBABLY FINANCED BY SHORT TERM BORROWING FROM CENTRAL BANK WHICH IS NOT SHOWN IN BUDGET DOCUMENT. IN ADDITION WE HAVE GUSED GOJ BUDGE PROJECTION OF FINANCIAL CONSEQUENTLY THIS WOULD PRSUMABLY LEAD GOJ TO SEEK LARGER AMOUNTS OF OUTSIDE FINANCIAL ASSISTANCE THAN THE 72 MILLION DINARS INCLUDED IN BUDGET.

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C O N F I D E N T I A L SECTION 2 OF 2 AMMAN 1426

6. FOR PURPOSES OF THIS MESSAGE WE WISH TO EMPHASIZE ONLY TWO ASPECTS OF THIS TBLE. FIRST, IS THAT GOJ HAS ACHIEVED RESPECTIABLE RECORD OF INCREASES IN DOMESTIC REVENUES OVER PAST FIVE YEARS. DURING THE PERIOD 1972-76 DOMESTIC REVENUES HAVE DOUBLED. ADMITTEDLY THEY STARTED FROM LOW ASE IN 1972 AND THEY BENE FITTED FROM EXPORT DUTY ON PHOSPHATE WHICH IN A SENSE IS WEINDFALL BECAUSE OF HIGH INTERNATIONAL MARKET PRICES. IN ADITION THERE IS ALMOST UNIVERSAL AGREEMENT THAT JORDANIANS COULD HAVE DONE BETTER. NOENTHELESS THEIR RECORD IS ACCEPTABLE ONE. HOWEVER DESPITE THIS SOLID GROWTH IN DOMESTIC REVENUES BECAUSE OF THE

RAPID GROWTH IN TOTAL EXPENDITURES THE GAP BETWEEN EXPENDITURES ON ONE HAND AND DOMESTIC REVENUES AND BORROWING ON THE OTHER HAS ALSO DOUBLED. THUS THE AMOUNT CONTRIBUTED BY OUTSIDE DONORS FOR FINANCIAL ASSISTANCE HAS EXPERIENCED PARALLEL GROWTH FROM 44 MILLION DINARS IN 1972 TO GOJ ESTIMATE OF 72 MILLION DINARS IN PRESENT YEAR.

7. TWO YEARS AGO WE MADE AN ASSESSMENT OF THE JORDANIAN ECONOMY AND CONCLUDED THAT THE POTENTIAL EXISTED FOR JORDAN TO APPROACH FISCAL SELF-SUFFICIENCY OVER 5 TO 10 YEAR PERIOD. THIS ESTIMATE WAS BASED ON SEVERAL ASSUMPTIONS SOME RELATING TO THE BUDGET ITSELF (CONTROL OVER GROWTH OF SECURITY/POLITICAL ELEMENTS OF BUDGET BEING PERHAPS MOST IMPORTANT ONE PLUS OTHER BUDGETARY RESTRAINT) AND SOME RELATING TO THE GROWTH OF LEADING SECTORS OF THE ECONOMY (TOURISM MINERALS ETC) MOVEMENT TOWARD PEACE WAS ASSUMED. IN FACT WHILE WAR HAS BEEN AVOIDED THERE HAS CERTAINLY NOT BEEN REDUCED CONCERN WITH MILITARY PREPARATIONS (EG MODERNIZATION OF GROUND FORCES AND AIR
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DEFENSE) THE OVERALL BUDGET HAS GROWN A PACE AND AT LEAST ONE SECTOR TOURISM HAS SUFFERED FROM POLITICAL UNCERTAINTY IN THE AREA. WE CONTINUE TO HOLD THAT FISCAL INDEPENDENCE IS INDEED POSSIBLE, BUT PRESENT TRENDS ARGUE THE REVERSE AND AS MINIMUM MAKE THE GOAL APPEAR A MORE DISTANT ONE.

8. ALL THIS SERVES TO POINT OUT THAT OUR POLICY OF REDUCING BUDGET SUPPORT IS NOT LIKELY TO BE EASY TO IMPLEMENT IN THE FACE OF THE GROWING BUDGETARY GAP BEING INCURRED BY JORDANIANS. WE ARE NOT ARGUING THAT WE SHOULD CHANGE OUR POLICY. OUR CONTINUED INSISTENCE ON EMPHASIZING DEVELOPMENT IS HEALTHY FOR THE JORDANIANS. SOONER OR LATER THEY MUST COME TO TERMS WITH THEIR FISCAL PROBLEMS. BUT UNLESS PRESENT TRENDS CHANGE WE CAN EXPECT TO ENCOUNTER INCREASING RESISTANCE TO OUR ATTEMPTS TO REDUCE BUDGET SUPPORT. THE ISSUE MAY NOT ARISE IN STRONG FORM DURING FORTHCOMING VISIT. NEITHER KING NOR PM HAS MADE SPECIAL ISSUE OF ITS RECENTLY BECAUSE OF THE ABILITY THUS FAR TO OBTAIN ADDITIONAL RESOURCES FROM OTHER ARAB STATES-ALTHOUGH WE THINK THIS ABILITY IS RUNNING OUT GIVEN HIGH LEVELS OF CURRENT ARAB SUPPORT. BUT THE GROWING GAP COMBINED WITH JORDANIANS RELUCTANCE TO BE TOTALLY DEPENDENT ON OTHER ARAB STATES (AND OURS TO ALLOW THEM TO BE) WILL ALMOST CERTAINLY FORCE THE MATTER TO THE SURFACE AT SOME POINT.
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